



Annual Report on Contractor Work Force Restructuring

U. S. Department of Energy

Fiscal Year 1998

March 1999



The Secretary of Energy
Washington, DC 20585

March 4, 1999

Section 3161 (e)(2) of the National Defense Authorization Act for Fiscal Year 1993 directs the Secretary of Energy to provide annual updates of approved work force restructuring plans that evaluate the implementation of the plan during the year preceding the report. In order to overall evaluation of work force restructuring and community transition activities, the Department has prepared this report of work force restructuring plans.

The Department of Energy's Annual Report: Contractor Work Force Restructuring in the U.S. Department of Energy: Fiscal Year 1998 reviews the implementation of work force restructuring plans during fiscal year 1998. A total of 3,028 contractor employees were separated under these plans.

The Department successfully met the objective of section 3161 to minimize layoffs. Of the total number of permanent prime contractor team employees separated, 45 percent left voluntarily. In achieving these results, 48 employees accepted early retirement offers, 861 employees accepted non-retirement voluntary separations and 457 positions were eliminated through attrition, bringing the total voluntary separations to 1,366. There were 1,662 permanent prime contractor employees involuntarily separated.

The cost of implementing these plans was \$50 million, with an average cost of \$15,700 per separation. *The estimated recurring savings resulting from these separations over the next several years will be \$108 million per year.* Since 1993, work force restructuring has resulted in annual recurring savings of \$3.3 billion.

To date, 12 communities have begun community transition planning and many have implemented program and projects. These activities have retained, expanded or created over 16,000 jobs. An additional 17,100 jobs are projected to be created over the next few years as the result of these efforts. To date, the program has created one job for each \$9,500 of funding provided, a figure that compares favorably with other economic development activities.

If you have any questions regarding this update or any other aspects of our Worker and Community Transition Program, please contact Mr. Robert W. DeGrasse, Jr., Director of the Office of Worker and Community Transition, at (202) 586-7550.

A handwritten signature in cursive script, reading "Bill Richardson", is positioned above the printed name.

Bill Richardson

TABLE OF CONTENTS

OVERVIEW AND SUMMARY	1
Major Accomplishments	2
Organization of This Report	4
SECTION I: SUMMARY OF WORK FORCE RESTRUCTURING	5
I.0 Background	5
I.1 Fiscal Year 1998 Work Force Restructuring Activity	7
I.2 Changing Separation Patterns	9
I.3 Cost Savings and Separation Costs	14
I.4 Program Assessment	22
I.5 Mitigating Restructuring Impacts	24
I.6 Community Transition Overview	26
I.7 Lessons Learned	29
I.8 Emerging Issues	31
I.9 Future Mission of the Office of Worker and Community Transition	32
SECTION II: DEFENSE NUCLEAR SITES	33
II.0 Background	33
II.1 Separations	33
II.2 Cost Savings and Separation Costs	34
II.3 Mitigating Restructuring Impacts	36
II.4 Site Summaries	36
II.4.1 Idaho National Engineering and Environmental Laboratory	37
II.4.2 Kansas City Site	45
II.4.3 Lawrence Livermore National Laboratory	50
II.4.4 Los Alamos National Laboratory	54
II.4.5 Nevada Test Site	62
II.4.6 Oak Ridge Complex	69
II.4.7 Ohio Field Office	84
II.4.8 Pantex Plant	98
II.4.9 Pinellas Plant	103
II.4.10 Portsmouth / Paducah Gaseous Diffusion Plants	106
II.4.11 Richland Site	118
II.4.12 Rocky Flats Environmental Technology Site	127
II.4.13 Sandia National Laboratories	137
II.4.14 Savannah River Site	143

SECTION III: NON-DEFENSE SITES 153

III.0	Background	153
III.1	Separations	154
III.2	Cost Savings and Separation Costs	154
III.3	Mitigating Restructuring Impacts	155
III.4	Site Summaries	156
III.4.1	Ames Laboratory	157
III.4.2	Argonne National Laboratory	158
III.4.3	Bettis Atomic Power Laboratory	159
III.4.4	Brookhaven National Laboratory	160
III.4.5	Federal Energy Technology Center	162
III.4.6	Fermi Laboratory	163
III.4.7	Knolls Atomic Power Laboratory	164
III.4.8	Lawrence Berkeley National Laboratory	165
III.4.9	National Institute for Petroleum and Energy Research	166
III.4.10	National Renewable Energy Laboratory	167
III.4.11	Naval Petroleum Reserve	168
III.4.12	Princeton Plasma Physics Laboratory	169
III.4.13	Stanford Linear Accelerator Center	170
III.4.14	Strategic Petroleum Reserve	171
III.4.15	Other Non-Defense Sites	172

APPENDICES

Final Planning Guidance for Contractor Work Force Restructuring	A-1
Office of Worker and Community Transition Contacts	B-1
DOE Work Force Restructuring Field Contacts	C-1
DOE Community Transition Field Contacts	D-1
Community Reuse Organization Contacts	E-1
DOE Order 350.1: Contractor Human Resource Management Programs	F-1
Chapter I - Labor Relations	F-4
Chapter II - Labor Standards	F-8
Chapter III - Reduction in Contractor Employment	F-13
Policy and Planning Guidance for Community Transition Activities	G-1

LIST OF EXHIBITS

SECTION I: SUMMARY OF WORK FORCE RESTRUCTURING

Exhibit I.1.	Work Force Restructuring Summary for All Sites (Defense and Non-Defense) .	7
Exhibit I.2	Prime Contractor Separations for FY 1998 (Defense and Non-Defense)	8
Exhibit I.3	Annual Cost and Savings for FY 1998 (Defense and Non-Defense)	9
Exhibit I.4	Prime Contractor Employment: Fiscal Years 1988-1998	10
Exhibit I.5	Department of Energy Management and Operating Contractor Team Employment at Selected Sites	11
Exhibit I.6	Prime Contractor Separations for FY 1993 Through FY 1998	12
Exhibit I.7	Changing Separation Patterns	13
Exhibit I.8	Annual and Cumulative Gross and Net Cost Savings for FY 1993 Through FY 1998	15
Exhibit I.9	Annual and Cumulative Cost and Savings for FY 1993 through FY 1998	15
Exhibit I.10	Comparison of Private Sector and Department of Energy Restructuring Practices	18
Exhibit I.11	Average Cost of Work Force Restructuring	20
Exhibit I.12	Average Cost of Other Benefits Per Recipient	21
Exhibit I.13	Community Transition Funding and Job Creation	27

SECTION II: DEFENSE NUCLEAR SITES

Exhibit II.1	Defense Sites Work Force Restructuring Summary	33
Exhibit II.2	Defense Nuclear Site Separations for FY 1998	34
Exhibit II.3	Cost and Savings for FY 1998 Defense Site Reductions in Employment	35
Exhibit II.4.	Idaho Work Force Restructuring Summary	38
Exhibit II.5	Idaho Community Transition Funding and Job Creation	41
Exhibit II.6	Idaho Funding and Job Creation by Program	43
Exhibit II.7	Kansas City Work Force Restructuring Summary	47
Exhibit II.8	Lawrence Livermore National Laboratory Work Force Restructuring Summary	51
Exhibit II.9	Los Alamos National Laboratory Work Force Restructuring Summary	55
Exhibit II.10	Los Alamos Community Transition Funding and Job Creation	57
Exhibit II.11	Los Alamos Funding and Job Creation by Program Area	60
Exhibit II.12	Nevada Work Force Restructuring Summary	64
Exhibit II.13	Nevada Community Transition Funding and Job Creation	65
Exhibit II.14	Nevada Funding and Job Creation by Program Area	68
Exhibit II.15	Oak Ridge Work Force Restructuring Summary	72
Exhibit II.16	Oak Ridge Community Transition Funding and Job Creation	76
Exhibit II.17	Oak Ridge Funding and Job Creation by Program Area	80
Exhibit II.18	Fernald Work Force Restructuring Summary	86
Exhibit II.19	Mound Work Force Restructuring Summary	87
Exhibit II.20	Fernald Community Transition Funding and Job Creation	89
Exhibit II.21	Fernald Funding and Job Creation by Program Area	91
Exhibit II.22	Mound Community Transition Funding and Job Creation	92
Exhibit II.23	Mound Funding and Job Creation by Program Area	94
Exhibit II.24	Pantex Work Force Restructuring Summary	99
Exhibit II.25	Pinellas Community Transition Funding and Job Creation	104
Exhibit II.26	Pinellas Funding and Job Creation by Program Area	105
Exhibit II.27	Portsmouth Work Force Restructuring Summary	108

Exhibit II.28	Paducah Work Force Restructuring Summary	109
Exhibit II.29	Portsmouth Community Transition Funding and Job Creation	112
Exhibit II.30	Portsmouth Funding and Job Creation by Program Area	113
Exhibit II.31	Paducah Community Transition Funding and Job Creation	114
Exhibit II.32	Paducah Funding and Job Creation by Program Area	115
Exhibit II.33	Richland Work Force Restructuring Summary	120
Exhibit II.34	Richland Community Transition Funding and Job Creation	122
Exhibit II.35	Richland Funding and Job Creation by Program Area	125
Exhibit II.36	Rocky Flats Work Force Restructuring Summary	129
Exhibit II.37	Rocky Flats Community Transition Funding and Job Creation	132
Exhibit II.38	Rocky Flats Funding and Job Creation by Program Area	134
Exhibit II.39	Sandia National Laboratory Work Force Restructuring Summary	139
Exhibit II.40	Savannah River Work Force Restructuring Summary	146
Exhibit II.41	Savannah River Community Transition Funding and Job Creation	148
Exhibit II.42	Savannah River Funding and Job Creation by Program Area	150

SECTION III: NON-DEFENSE SITES

Exhibit III.1	Non-Defense Sites Work Force Restructuring Summary	153
Exhibit III.2	Non-Defense Separations for FY 1998	154
Exhibit III.3	Cost and Savings for FY 1998 Non-Defense Site Reductions in Employment	155
Exhibit III.4	Ames Laboratory Work Force Restructuring Summary	157
Exhibit III.5	Argonne National Laboratory Work Force Restructuring Summary	158
Exhibit III.6	Bettis Atomic Power Laboratory Work Force Restructuring Summary	159
Exhibit III.7	Brookhaven National Laboratory Work Force Restructuring Summary	161
Exhibit III.8	Federal Energy Technology Center Work Force Restructuring Summary . . .	162
Exhibit III.9	Fermi Laboratory Work Force Restructuring Summary	163
Exhibit III.10	Knolls Atomic Power Laboratory/Schenectady Naval Reactors Work Force Restructuring Summary	164
Exhibit III.11	Lawrence Berkeley National Laboratory Work Force Restructuring Summary	165
Exhibit III.12	National Institute for Petroleum and Energy Research Work Force Restructuring Summary	166
Exhibit III.13	National Renewable Energy Laboratory Work Force Restructuring Summary	167
Exhibit III.14	Naval Petroleum Reserve - Elk Hills Work Force Restructuring Summary . . .	168
Exhibit III.15	Princeton Plasma Physics Laboratory Work Force Restructuring Summary .	169
Exhibit III.16	Stanford Linear Accelerator Center Work Force Restructuring Summary . . .	170
Exhibit III.17	Strategic Petroleum Reserve Work Force Restructuring Summary	171

ANNUAL REPORT

Fiscal Year 1998

OVERVIEW AND SUMMARY

The Office of Worker and Community Transition (the Office) was established by the Secretary of Energy on September 15, 1994. The Office succeeded a task force established by the Secretary in April 1993 to coordinate worker and community assistance for the Department of Energy (the Department) complex. One of the key responsibilities of the Office has been the implementation of section 3161 of the National Defense Authorization Act for Fiscal Year 1993. This legislation requires the Secretary of Energy to develop work force restructuring plans that address certain objectives for Department of Energy defense nuclear facilities whenever work force changes are necessary. Based on Secretarial direction, work force restructuring objectives are considered for reductions that exceed a threshold of 100 workers at any site, in a single year, including sites not specifically covered by section 3161.

This report responds to the requirement of section 3161 to report to Congress annually on the results of work force restructuring. It covers activities in Fiscal Year (FY) 1998 and serves to update Congress and the public on the outcomes of work force restructuring and community transition.

This report also fulfills the requirements of section 3157 of the National Defense Authorization Act for Fiscal Year 1995 and section 3153 of the National Defense Authorization Act for Fiscal Year 1998. Section 3157 requires an annual report to Congress on Economic Redevelopment and Conversion Activities Resulting from Reconfiguration of Department of Energy Nuclear Weapons Complex. Section 3153 requires a semi-annual report on local impact assistance provided by the Department to communities.

FY 1998 marks the sixth successive year of significant work force restructuring at Department facilities. These work force restructuring activities have resulted in ***yearly savings of over \$3.3 billion to the United States Government*** through the orderly separation of more than 46,000 employees. Economic assistance to communities affected by this dramatic reduction in the Department's contractor employment has resulted in the creation of over 16,000 private sector jobs at a cost of less than \$9,500 per job created – which compares favorably with the Department of Defense and other economic development initiatives.

The overall objective of work force restructuring is to ensure that the Department meets its mission requirements, while minimizing the social and economic impacts of restructuring on both workers and communities surrounding these sites. The Office cooperates with: (1) appropriate field organizations to prepare work force restructuring plans that provide reasonable assistance to affected workers; and, (2) affected communities to develop community transition plans that address the potential economic impacts of restructuring.

The Worker and Community Transition program mission is evolving as the Department confronts new challenges in managing its contractor work force and dealing with facilities that are excess to the future needs of the Department. While work force reductions associated with budget changes will continue, their scope is likely to decline compared to recent years. The Office is working with program and field offices, contractors, workers, and community leaders to develop work force management and community assistance strategies that will facilitate the early closure of sites.

In an effort to widely disseminate information about the Department's restructuring policies, the Office prepares a bi-monthly program update; holds national workshops for stakeholders; established and maintains a home page on the Internet; and publishes guidance for work force restructuring and community transition. These activities allow the Department to monitor and respond to stakeholder input. In addition, the Office helps resolve labor issues related to restructuring.

Major Accomplishments

- ***Reductions in the Contractor Work Force.*** From a peak of 148,700 prime contract employees at the end of FY 1992, the Department's contractors separated about 46,000 employees through the end of FY 1998.
- ***Voluntary Separations.*** Of the 46,000 separations since FY 1993, 71 percent were voluntary, including early retirement, nonretirement voluntary separations, and managed attrition.
- ***Costs of Reductions.*** The total estimated cost through the end of FY 1998 for separating these 46,000 employees was \$837 million, or approximately \$18,000 per employee. This compares favorably with U.S. Department of Defense and private industry benchmarks and is below the upper range of \$25,000 in benefits contained in the Department's Final Planning Guidance for Contractor Work Force Restructuring.
- ***Cost Effectiveness.*** The average annual compensation cost of employing a full-time prime contractor employee is estimated at \$71,360. Given these estimates, the Department can reasonably expect to achieve ***annual savings*** of approximately \$3.3 billion per year as a result of the 46,000 reductions made since FY 1992.
- ***Work Force Planning.*** Contractors at defense nuclear sites utilize a standard work force planning process. Prior to implementing work force restructuring, a work force analysis is conducted and reviewed by the Department. The analysis identifies necessary changes in different job classifications and facilitates opportunities for reassignment or retraining that can better match positions and employees with required skills.

- **Program Assessment.** In FY 1998 Booz-Allen & Hamilton, Inc. conducted an independent program assessment of the effects of work force restructuring programs in the Department. The report concluded that the section 3161 program, as administered by the Office of Worker and Community Transition, has had a positive impact on mitigating the social and economic impacts of the DOE transition. In addition to the FY 1998 assessment, the U.S. General Accounting Office conducted an assessment in FY 1997 of the work force restructuring of Department of Energy contractor employees. Their report concluded that through improved guidance and emphasis on work force planning, the Department has taken steps to improve its ability to conduct restructuring while meeting critical skills needs at its facilities.
- **Community Transition.** Each community adjacent to a site undergoing work force restructuring is eligible to form a Community Reuse Organization (CRO) and apply for funding to plan and implement programs and projects that mitigate the social and economic impacts of restructuring. To date, 12 communities have planning underway, and most of these communities have implemented programs and projects. These activities have retained, expanded, or created over 16,000 jobs. The average cost per job created at the communities surrounding these sites was \$9,500.
- **Guidance.** The Office was published the *Final Planning Guidance for Contractor Work Force Restructuring* in the *Federal Register* on December 10, 1998. This Guidance establishes a streamlined and flexible planning and approval process for work force restructuring activities. Work Force Restructuring Plans have been written and approved to establish general strategies for work force restructuring at a given site, as opposed to requiring a separate plan for each restructuring activity. Plans identified that enhanced benefits would be dependent on funding provided from the Worker and Community Transition appropriation.
- **Labor Relations.** The Office has been dealing with a number of issues involving work force planning, work force skills mix, retention and development at Departmental closure sites. The Office continues to work on issues pertaining to the work force, such as dealing with service credits and benefit portability and developing a Departmental privatization policy. Increasingly complex issues at the bargaining table, including job security, training, and site culture changes, are examined and shared with Field Office personnel dealing with these matters. Labor standards coverage issues raised by the various unions representing workers throughout the complex continue to be a matter of concern, and the Office responds to inquiries made on these issues. The Office has been successful in dealing with the Department of Labor in correcting erroneous wage determinations at DOE sites.

- **Public Participation.** Over the last five years, the Department has held six National Stakeholders Workshops in Denver, Atlanta, Albuquerque, Oakland, and Washington, D.C. The Office also has held workshops, conferences, and working sessions that address specific topics such as work force restructuring, community transition, labor relations and work force planning. *Program Updates*, a periodic report about Office and field activities, is issued every two months. In addition, the Office established an Internet website at <http://www.wct.doe.gov> that includes information about the Office, including the Job Opportunity Bulletin Board System (JOBBS) website that provides employers with a means for publicizing job opportunities appropriate for workers displaced by DOE contractor work force restructuring; Transitions, a website that provides information about Department of Energy sites experiencing downsizing, their local communities, and the work force in those communities; and the Computers for Learning web site that allows schools and nonprofit educational organizations to register to receive surplus Federal computer equipment.

Organization of This Report

This report is organized into three sections. Section I summarizes work force restructuring and community transition activities at all sites, including restructuring activities for FY 1998 changing separation patterns, cost savings and separation costs, program assessment, activities to mitigate restructuring impacts, community transition activities, lessons learned, and emerging issues in worker and community transition. Section II summarizes work force restructuring and community transition activities for defense nuclear sites. Section III summarizes work force restructuring activities at non-defense sites.

Each site summary in section II is printed as a separate subsection to facilitate individual reprinting. At the start of each site subsection, an exhibit summarizes the work force restructuring analysis that follows.

Appendices with supporting information follow section III.

SECTION I: SUMMARY OF WORK FORCE RESTRUCTURING

I.0 Background

Following World War II, the onset of the Cold War between the United States and the Soviet Union led to the buildup of an elaborate network of research, production, and testing facilities known as the nuclear weapons complex. During its half century of operations, this network expanded to 20 major facilities covering 2.3 million acres of land with 120 million square feet of buildings. To meet nuclear weapons production requirements and other national security obligations, the Department and its predecessor agencies assembled an extensive contractor work force. The breakup of the Soviet Union in 1991, together with President Bush's announcement of the first unilateral nuclear weapons reduction agreement on September 27 of that year, signaled the end of the Cold War and dramatically reduced the need for further nuclear weapons production.

The end of the Cold War also brought about fundamental changes in contractor work force requirements as the Department shifted from weapons production to other missions such as environmental management, weapons dismantlement, industrial competitiveness, and science and technology research. Between 1988 and the end of 1992, the Department's contractor work force expanded by nearly 22,000 employees to 148,700 contract workers. These employees were hired in addition to the existing weapons production work force. In 1993, faced with significant budget reductions and overstaffing problems, the Department began to restructure its work force.

During President Bush's Administration, Secretary of Energy James Watkins issued Department of Energy Order 3309.1A¹ establishing objectives to ensure fairness while reducing the contractor work force, including programs to minimize layoffs. In passing section 3161 of the National Defense Authorization Act for Fiscal Year 1993,² the Congress directed an explicit planning process for work force changes at defense nuclear facilities involving affected stakeholders and directed that these plans should be guided by certain objectives to mitigate the impacts on workers and communities, especially those whose service had helped maintain our nuclear deterrent force during the Cold War.

Section 3161 requires the Secretary of Energy to develop a plan for restructuring the work force for a defense nuclear facility whenever there is a determination that a change in the work force is necessary. Section 3161 also identifies objectives that each plan should address, including: minimizing social and economic impacts; giving workers adequate notice of impending changes; minimizing involuntary separations; offering preference-in-hiring to the extent practicable to

¹ This Order has been incorporated into Department of Energy Order 350.1, Chapter 3.

² Public Law 102-484

those employees involuntarily separated; providing relocation assistance under certain conditions; providing retraining, educational and outplacement assistance; and providing local impact assistance to affected communities.

To address the challenges posed by changing missions, and consistent with Departmental policy to apply the work force restructuring process at all sites undergoing significant work force changes, the Secretary of Energy established a Task Force on Worker and Community Transition on April 21, 1993. The primary function of the Task Force was to coordinate adjustment assistance consistent with section 3161. The Task Force was subsequently replaced by the Office on September 15, 1994, and was assigned the responsibility for reviewing and evaluating work force restructuring plans from all sites and overseeing the implementation of work force restructuring consistent with these plans and Departmental policy and guidance. In cooperation with affected field organizations, the Office has emphasized retention of workers with skills critical to ongoing or changing site missions and has integrated separation incentives with this objective.

In FY 1998, the Office was tasked with funding all enhanced benefits resulting from work force restructuring activities at DOE contractor sites. Section 304 of the Fiscal Year 1998 Energy and Water Appropriations Act provides that none of the funds appropriated by the Act or any prior appropriations Act may be used to augment funds provided to the Office for severance payments or other benefits and community assistance grants under section 3161 of the National Defense Authorization Act for Fiscal Year 1993. Previously, these benefit costs were reimbursed by operating program accounts at sites not primarily funded through the Defense Program Account.

Work force restructuring at Department facilities has resulted from (1) a transition to a fundamentally new mission at former defense nuclear production facilities, (2) dramatic changes in funding levels for environmental management activities, and (3) improved efficiency in the way the Department's contractors conduct their assignments.

Since 1993, the Office has issued five versions of general guidance to field organizations tasked with drafting work force restructuring plans. This guidance addresses the need for plans to meet the objectives of section 3161 and offers guidelines for preparing and structuring these plans. In FY 1998 the Office established a streamlined planning and approval process for work force restructuring activities. A copy of the current guidance is included in this report as Appendix A.

I.1 Fiscal Year 1998 Work Force Restructuring Activity

Separations - Fiscal Year 1998. There were 3,028 prime contractor employees separated from the Department in FY 1998 (Exhibit I.1), a 55 percent decrease in separations from FY 1997.

Exhibit I.1. Work Force Restructuring Summary for All Sites (Defense and Non-Defense)

	SITE: DEFENSE AND NON-DEFENSE SITES (TOTAL)	FY 1998				
		Workers	Enhanced Costs	Program Costs	Total Costs	Total Cost/Recip.
1.0	Positions Reduced Voluntarily	1,366	\$9,862,112	\$12,413,371	\$22,275,483	\$16,307
1.1	Early Retirement	48	\$465,492	\$1,899,480	\$2,364,972	\$49,270
1.2	Non-Retirement Voluntary Separations (Severance Only)	861	\$9,396,620	\$10,513,891	\$19,910,511	\$23,125
1.3	Net Positions Reduced Through Attrition	457	\$0	\$0	\$0	\$0
2.0	Involuntary Separations (Severance Only)	1,662	\$493,323	\$17,412,439	\$17,905,762	\$10,774
2.1	With Benefits	1,220	\$493,323	\$17,412,439	\$17,905,762	\$14,677
2.1.1	Non-construction workers	1,040	\$98,800	\$17,012,439	\$17,111,239	\$16,453
2.1.2	Construction workers	180	\$394,523	\$400,000	\$794,523	\$4,414
2.2	Without Benefits	442	\$0	\$0	\$0	\$0
	Net Positions Reduced and Costs (Primes only) -- Lines 1.0 + 2.0	3,028	\$10,355,435	\$29,825,810	\$40,181,245	\$13,270
3.0	Remaining Affected Workers		\$0	\$200,000	\$200,000	
3.1	Workers Placed without Retraining	913	\$0	\$0	\$0	\$0
3.2	Workers Internally Placed through Retraining	17	\$0	\$200,000	\$200,000	\$11,765
3.3	Transfers to Other Sites	79	\$0	\$0	\$0	\$0
4.0	Other Benefits Provided		\$5,330,400	\$4,845,613	\$10,176,013	
4.1	Displaced Worker Medical Benefits	1,738	\$540,536	\$4,727,322	\$5,267,858	\$3,031
4.2	Relocation Assistance	23	\$38,989	\$0	\$38,989	\$1,695
4.3	Separating or Separated Workers Using Outplacement	3,488	\$2,017,971	\$46,770	\$2,064,741	\$592
4.4	Education Assistance for Separated Workers	1,669	\$2,732,904	\$71,521	\$2,804,425	\$1,680
5.0	TOTAL COSTS FOR FISCAL YEAR 1998	n/a	\$15,685,835	\$34,871,423	\$50,557,258	n/a
6.0	NET POSITIONS REDUCED (Average Costs) (1)	3,028	n/a	n/a	n/a	\$15,661
7.0	NON-RETIREMENT VOLUNTARY SEPARATIONS (All Benefits) (1)	861	n/a	n/a	n/a	\$26,604
8.0	INVOLUNTARY SEPARATIONS (All Benefits) (1)	1,220	n/a	n/a	n/a	\$18,156
9.0	Other Separations (2)	129	\$68,200	\$1,220,345	\$1,288,545	\$9,989
9.1	Voluntarily Separated	129	\$68,200	\$1,220,345	\$1,288,545	\$9,989
9.2	Involuntarily Separated	0	\$0	\$0	\$0	\$0

FOR ALL SITES

Note 1. See Historical Average Costs of Other Benefits for explanation of costs per recipients.

Note 2. May be underreported due to variations in tracking subcontractor employment at different sites.

While almost half of the separations were voluntary (45 percent), the percentage of involuntary separations has increased to 55 percent of all separations (Exhibit I.2). The percentage of early retirements has decreased to 2 percent of total separations.

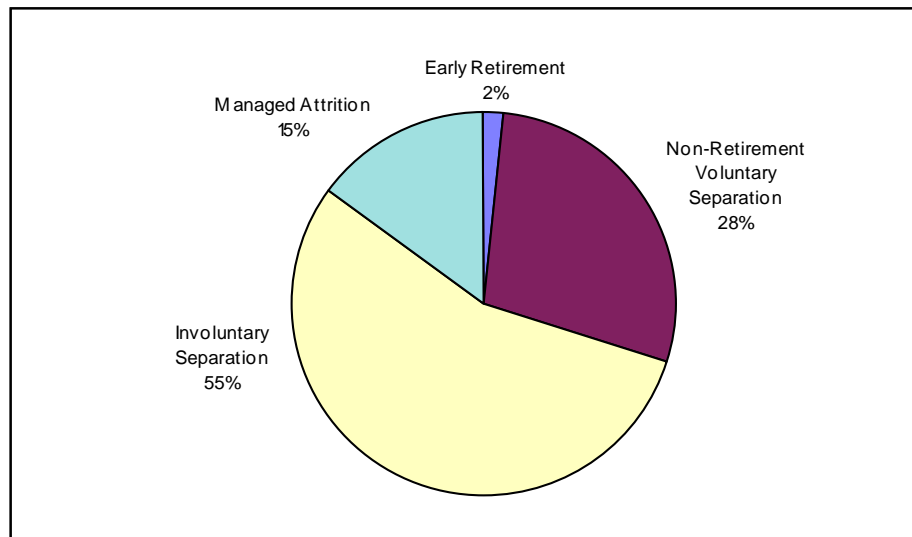


Exhibit I.2 Prime Contractor Separations for FY 1998 (Defense and Non-Defense)

Cost - Fiscal Year 1998. The total cost incurred during FY 1998 was \$50.5 million, and the estimated fully-burdened cost per separation was \$15,700 (Exhibit I.1).³ Severance costs for early retirement averaged \$49,300 per recipient. Nonretirement voluntary separations averaged \$23,100 for severance, and \$26,600 when other benefits are included. The average severance cost for involuntary separations was \$14,700, with a fully-burdened cost of \$18,200 with benefits.

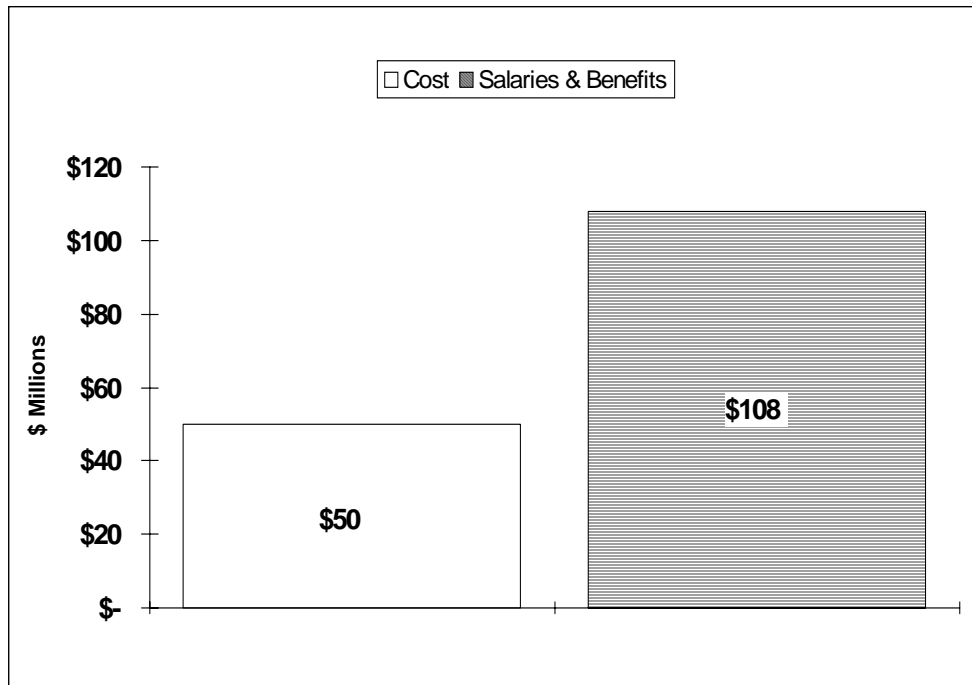
Enhanced Benefits. To comply with section 304 of the Fiscal Year 1998 Energy and Water Appropriations Act, separations costs for FY 1998 have been broken out by enhanced benefits, which have been paid for by the Office of Worker and Community Transition and contract benefits which have been paid for the responsible program office. For the most part, enhanced benefits include relocation assistance, educational assistance, outplacement assistance, and enhanced severance pay. Contract severance pay and displaced worker medical benefits are typically covered by the program offices. The cost of outplacement assistance may be covered considered program costs if outplacement has been part of an ongoing corporate benefit.

Of the \$50.5 million total separation cost, \$15.7 million was enhanced benefit costs funded by the Office. The remaining \$34.8 million was funded by the various responsible program offices.

³

A fully-burdened cost per voluntary or involuntary separation is calculated by taking the average severance/incentive cost and adding a per capita historical average cost for other benefits of \$3,479. The fully-burdened cost for all separations uses a prorated historical average based on the ratio of separated workers eligible for benefits.

Cost Savings - Fiscal Year 1998. The cost savings associated with the 3,028 contractor employees separated in FY 1998 is \$108 million⁴ versus a one-time cost of \$50 million (Exhibit I.3).



**Exhibit I.3 Annual Cost and Savings for FY 1998
(Defense and Non-Defense)**

I.2 Changing Separation Patterns

Fiscal Year 1992-Fiscal Year 1998. The Department-wide prime contractor work force has decreased by 46,000 employees since the FY 1992 peak of 148,700. Work force restructuring plans coupled with mission changes, contract reforms, and budget cuts helped reduce the number of employees to 103,011 by the end of FY 1998 (Exhibit I.4). This reduction in contractor employment of 31 percent since FY 1992 has been accomplished consistent with the objectives of section 3161.

⁴ Total annual employee compensation averaged \$71,360 for salary and benefits, adjusted for inflation, based on data compiled by the Department's Office of Procurement Assistance. Assuming separations occurred on average midyear, cost savings is calculated based on one-half the annual compensation cost.

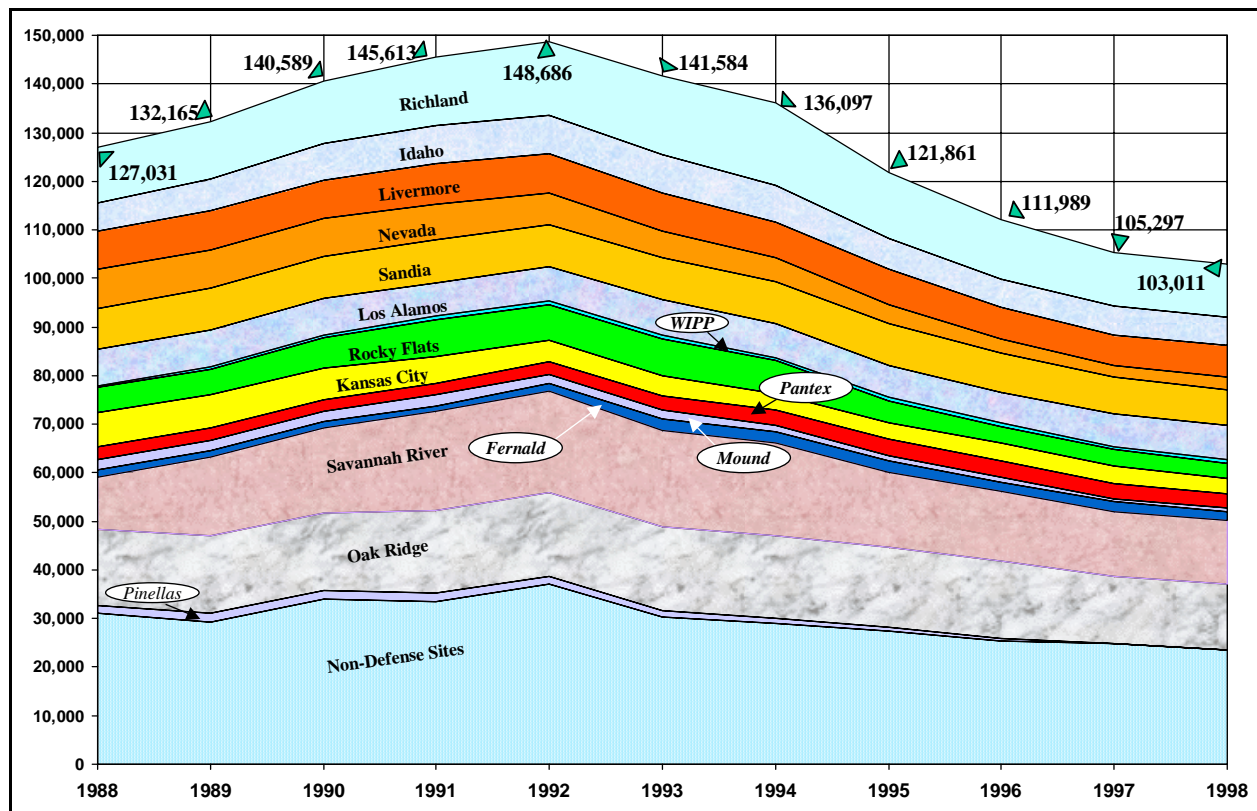


Exhibit I.4 Prime Contractor Employment: Fiscal Years 1988-1998

The Office has compiled prime contractor employment figures at defense nuclear sites for the end of FY 1998 (Exhibit I.5). These employment figures were developed in close consultation and with the concurrence of the relevant field organizations. In order to present an accurate picture of overall contractor employment trends, they include all employees who are involved in the scope of work that has historically been performed by management and operations contractors, even if the contracting mechanism under which they are employed has changed through approaches such as outsourcing, privatization, and enterprise companies.

SITE	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Richland	11,449	11,683	12,730	14,127	15,107	16,062	16,952	13,757	12,099	11,330	10,984
Idaho	5,773	6,510	7,548	7,988	7,901	7,810	7,524	6,084	5,739	5,868	5,743
Livermore	8,007	8,042	8,042	8,158	7,981	8,014	7,321	7,372	6,688	6,403	6,608
Nevada	8,035	7,996	7,713	7,390	6,670	5,548	5,068	3,940	2,765	2,345	2,515
Sandia	8,372	8,432	8,705	8,804	8,473	8,477	8,458	8,527	8,057	7,576	7,501
Los Alamos	7,442	7,667	7,402	6,992	7,203	7,293	7,024	6,708	6,439	6,687	7,009
WIPP	375	506	603	714	775	799	735	640	636	636	613
Rocky Flats	5,275	5,312	6,415	7,521	7,302	7,505	6,698	4,418	3,535	3,410	3,166
Kansas City	6,946	6,829	6,414	5,497	4,489	4,170	3,289	3,563	3,661	3,679	3,256
Pantex	2,627	2,573	2,390	2,492	2,673	3,020	3,230	3,348	3,327	2,920	2,856
Mound	2,219	2,150	2,149	2,150	1,741	1,713	1,337	1,122	924	740	708
Fernald	1,509	1,122	1,128	1,203	1,489	2,412	2,385	2,203	1,986	1,989	1,977
Savannah River	10,629	16,403	17,663	20,185	20,979	19,788	18,922	15,430	14,379	13,231	13,082
Oak Ridge	15,651	15,965	15,934	17,200	17,257	17,437	17,215	16,580	15,815	14,046	13,573
Pinellas	1,710	1,698	1,667	1,618	1,569	1,100	1,007	669	538	5	0
SUBTOTAL	96,019	102,888	106,503	112,039	111,609	111,148	107,165	94,361	86,588	80,865	79,591
Other Sites	31,012	29,277	34,086	33,574	37,077	30,436	28,932	27,500	25,401	24,432	23,420
GRAND TOTAL	127,031	132,165	140,589	145,613	148,686	141,584	136,097	121,861	111,989	105,297	103,011

**Exhibit I.5 Department of Energy Management and Operating Contractor Team
Employment at Selected Sites**

Since FY 1993, voluntary separations, including early retirement and nonretirement voluntary separations, have accounted for 72 percent of all separations. The remaining 28 percent have been involuntary (Exhibit I.6).

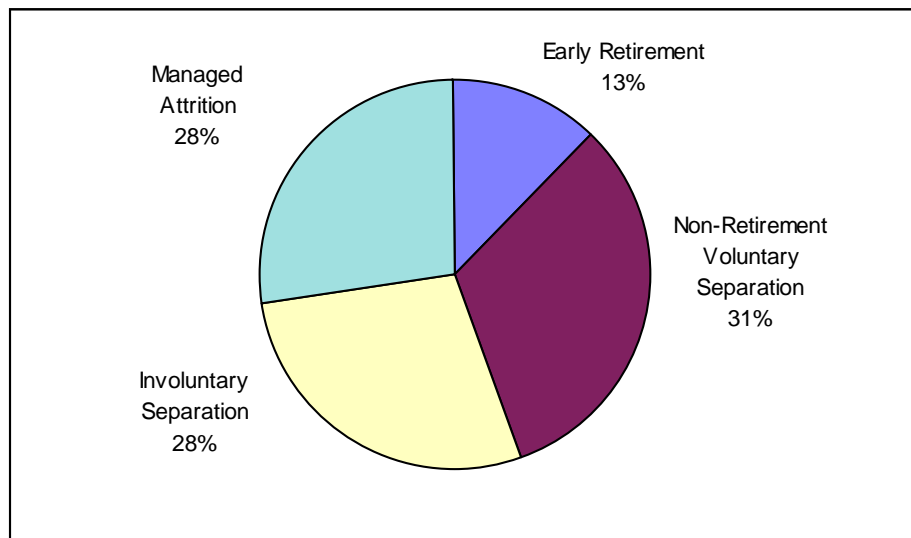


Exhibit I.6 Prime Contractor Separations for FY 1993 Through FY 1998

Fiscal Year 1993-Fiscal Year 1994. In FY 1993, as the Department began work force restructuring, voluntary separations were the preferred method of prime contractor reductions. During FY 1993/1994, voluntary separations accounted for 82 percent of the total separations. Nearly two-thirds of all voluntary separations occurred through nonretirement incentives, followed by early retirement and attrition. Involuntary separations comprised the remaining 18 percent of separations. Work force restructuring from the Department's defense nuclear sites in FY 1993/1994 totaled approximately 5,800 separations, while total positions reduced were 4,400 after considering new hires. See *U.S. Department of Energy Report on Work Force Restructuring Plans During FY 1993 and 1994*, February 1996, for further information.

Fiscal Year 1995. Nearly 18,800 prime contractor workers were separated from the Department in FY 1995. Even though the number of separations tripled, the percentage of voluntary and involuntary separations in FY 1995 remained consistent with FY 1993/1994 activity. Voluntary separations dominated FY 1995 figures, representing 80 percent of the total separations. The remaining 20 percent were involuntary. Within the cohort of voluntary separations, the percentages of early retirements and other incentivized separations declined while attrition expanded. After considering new hires, there were 14,200 total positions reduced in FY 1995. See *U.S. Department of Energy Annual Report on Contractor Work Force Restructuring, Fiscal Years 1995 and 1996*, January 1997, for further information.

Fiscal Year 1996. More than 11,700 prime contractor workers were separated from the Department in FY 1996, a 37 percent reduction from FY 1995. Voluntary separations still outnumbered involuntary ones, representing 71 percent of all separations. Involuntary separations expanded to 29 percent. After considering new hires, there were 9,900 total positions

reduced in FY 1996. See *U.S. Department of Energy Annual Report on Contractor Work Force Restructuring, Fiscal Years 1995 and 1996*, January 1997, for further information.

Fiscal Year 1997. There were 7,000 prime contractor workers separated from the Department in FY 1997, a 40 percent reduction from FY 1996. Voluntary separations decreased to just over half (56 percent) of all separations. Involuntary separations grew to 44 percent. After considering new hires, there were 6,700 total positions reduced in FY 1997. See *U.S. Department of Energy Annual Report on Contractor Work Force Restructuring, Fiscal Year 1997*, March 1998, for further information.

Trend Analysis. Comparisons of work force restructuring activities from FY 1992 through FY 1998 show a trend toward fewer incentivized separations (Exhibit I.7). Early retirement has steadily decreased from 30 percent in FY 1993/1994 to two percent in FY 1998, as the number of older, eligible individuals in the work force has decreased. The percentage of nonretirement voluntary separations has decreased consistently from 43 percent in FY 1993-1994 to 28 percent in FY 1998. In FY 1998, enhanced severance arrangements account for about one-third of all

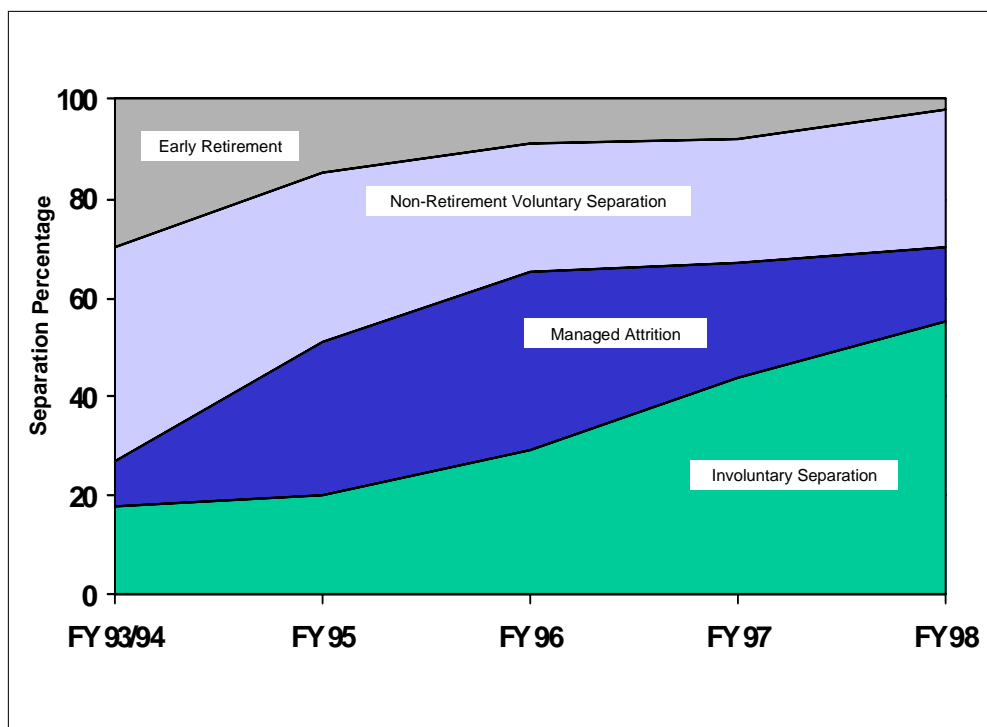


Exhibit I.7 Changing Separation Patterns

separations. This trend follows the private sector practice of limiting opportunities for voluntary separations in repeated instances of work force reductions. In FY 1995 and FY 1996, there was a trend towards separations through managed attrition; however in FY 1997 and FY 1998, the percentage of positions reduced through attrition decreased due to the hiring necessary to ensure

critical skills were maintained at the sites. Involuntary separations have steadily increased from 18 percent in FY 1993-1994, to 43 percent in FY 1998.

Major single-action work force restructuring activities due to budget constraints are occurring less frequently than in prior years. Incremental work force changes made as part of ongoing business decisions are becoming more common. These changes often relate to efficiency of operation, including changes in contracting mechanisms.

I.3 Cost Savings and Separation Costs⁵

The purpose of work force restructuring is to increase the cost-effectiveness and efficiency of Department-wide site operations by matching skilled employees with mission requirements. To achieve this result, prime contractors must separate or retrain workers whose skills no longer match mission needs. Sites employ a variety of means to minimize the economic and social impacts of voluntary and involuntary separations. These include enhanced severance for nonretirement voluntary separations, early retirement incentives, tuition assistance, medical benefit extensions, and outplacement services. The costs associated with these benefits are offset by savings realized from restructuring the work force.

Annual Cost Savings. Annual cost savings associated with work force reductions are based on the cost savings realized by the Department when current compensation costs are compared to the cost that would have been incurred if employment levels remained at the peak employment of 148,686 reported in FY 1992. Exhibit I.8 illustrates the gross and net savings associated with these reductions on an annual and cumulative basis. Exhibit I.9 provides a graphic representation of the gross and net savings associated with these reductions on an annual and cumulative basis.

⁵ Costs for early retirement are actuarial costs that include all costs associated with retirement payments to separated workers; costs for other incentivized voluntary separations include normal severance costs plus enhanced severance, but do not include normal salaries paid during any period after notice of separation. Separation costs do not include unemployment compensation, either for payments made directly to employees or additional unemployment compensation taxes assessed against the employer.

Fiscal Year		Employee Reductions	Average Compensation Cost	Gross Savings (millions)	Restructuring Costs (millions)	Net Savings (millions)
1993	Fiscal Year	7,102	\$61,000	\$216.6	\$92.6	\$124.0
	Cumulative	7,102		\$216.6		\$124.0
1994	Fiscal Year	5,487	\$61,000	\$167.4	\$72.8	\$94.6
	Cumulative	12,589		\$600.6		\$527.8
1995	Fiscal Year	14,236	\$63,440	\$451.6	\$313.4	\$138.2
	Cumulative	26,825		\$1,250.2		\$936.8
1996	Fiscal Year	9,872	\$65,977	\$325.7	\$163.9	\$161.8
	Cumulative	36,697		\$2,095.5		\$1,931.6
1997	Fiscal Year	6,692	\$68,616	\$229.6	\$119.1	\$110.5
	Cumulative	43,389		\$2,747.6		\$2,628.5
1998	Fiscal Year	2,286	\$71,360	\$81.6	\$50.3	\$31.3
	Cumulative	45,675		\$3,177.8		\$3,127.5

Exhibit I.8 Annual and Cumulative Gross and Net Cost Savings for FY 1993 Through FY 1998

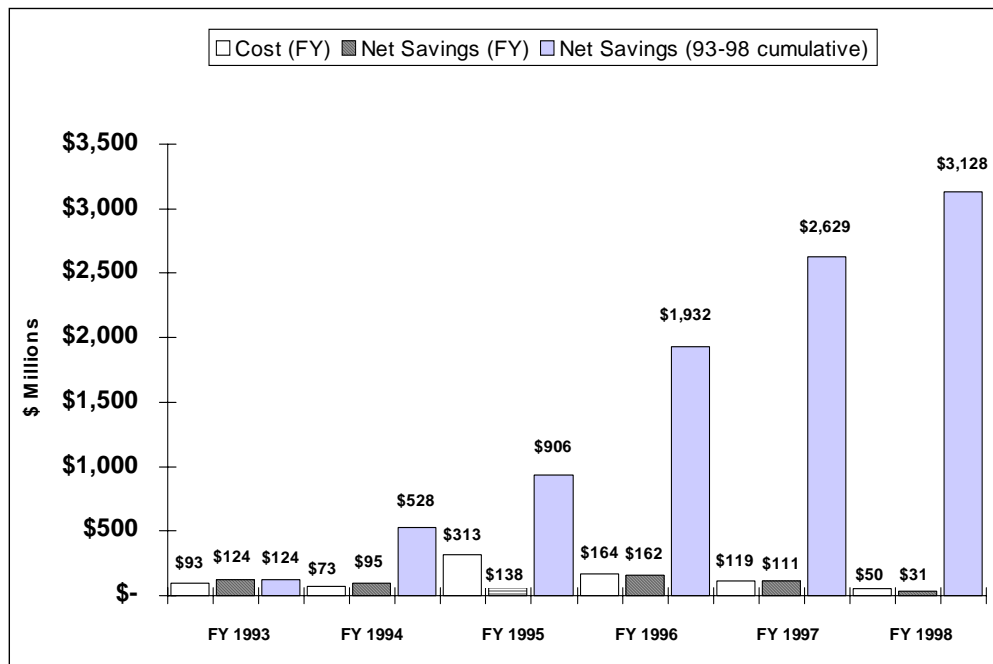


Exhibit I.9 Annual and Cumulative Cost and Savings for FY 1993 through FY 1998

The average compensation cost includes salary and benefits. In FY 1993 the average compensation cost was estimated at \$61,000 per contractor employee. To accurately reflect compensation costs through FY 1998, this figure was inflated by 4 percent each year, with the exception of FY 1994, when a salary freeze was in effect. To calculate annual cost savings, it was assumed that separated employees left midway through the fiscal year, suggesting that gross cost savings would be one-half of the average cost (salary and benefits) of employing that individual for the entire year. Fiscal year net savings for each fiscal year is the difference between gross savings and the reported restructuring costs for that given year. Annual employee reductions reflect the change in total contractor employment from year to year.

Based on the current average FY 1998 compensation cost of \$71,360 per employee, the 45,675 reductions since FY 1993 reflect a potential annual cost savings of over \$3.3 billion. This annual cost savings is more than three times the initial one-time cost of separations.

Comparison of Benefits at Defense and Non-Defense Sites. Work force restructuring at sites not covered by section 3161 is conducted in a manner consistent with longstanding Departmental policy and Secretarial guidance to apply the objectives of the legislation wherever work force restructuring occurs. Best business practices are used as a benchmark in developing restructuring strategies at these sites.

During FY 1998 non-defense sites reduced a total of 927 positions. Unlike prior years, the majority (77 percent) of the FY 1998 non-defense separations were involuntary. This was due primarily to the privatization of 464 employees at the Naval Petroleum Reserve Site in Elk Hills. Excluding the Elk Hills privatization, involuntary separations were 45 percent of total non-defense separations.

Overall cost per separation at non-defense sites (\$18,600) was higher than at defense sites (\$14,450). This difference is due, in part, to large severance payments made at Elk Hills (\$26,100 per recipient), as well as larger than average separation incentives at several non-defense laboratories. While section 3161 provides a structured and open process for work force restructuring, the strategies undertaken to implement the legislation are not fundamentally different from what occurs where the legislation does not apply, either in the public or private sectors.

External Benchmarking of Benefits Provided. Work force restructuring, particularly when it involves large numbers of employees, is subject to complex legal considerations including questions of discrimination based on age, sex, race, or other factors and collective bargaining agreements. Restructuring activities are susceptible to challenge, with attendant costs. When reductions-in-force are governed by strict seniority rules, an employer's ability to retain particular employees with critical skills can also be limited. Further, worker insecurity about their treatment in the event of additional work force changes often severely decreases the productivity of the remaining workers.

These factors have encouraged private companies to undertake work force restructuring strategies involving enhanced benefits – strategies that are adopted after cost-benefit calculations have been developed. The vast majority of large companies in the United States provide severance payments to workers who are involuntarily separated. Many also provide medical benefits, assistance in finding a new job, counseling, and/or training for affected employees. These benefits are often part of an employment contract (implied or written) or a collective bargaining agreement.

In March 1995, a report issued by the General Accounting Office (GAO) surveyed 25 major companies, including firms with considerable Federal contracting such as General Motors, General Electric, Grumman, and Honeywell. The GAO found that 72 percent of these companies "provided various incentives to encourage employees to voluntarily leave." For defense contractors, such as Grumman or Honeywell, the Department of Defense negotiated with the company to determine whether enhanced separation costs would be allowed.

A survey conducted by Actuarial Services Associates, Inc. (ASA)⁶ of downsizing practices of 60 major companies in the mid-1990s "confirm that it is common for employers that wish to downsize first to offer either an exit incentive retirement or resignation program (or sometimes both sequentially), and then to utilize layoffs to the extent downsizing is still needed. This, indeed is *the* classic exit incentive strategy and it is probably motivated more by the desire to be humane and to preserve employee morale." ASA found that many of these firms would encourage early retirement by allowing an employee to add up to five years in age and service for purposes of calculating pension benefits – since 1993, the Department has not allowed any contractor to enhance retirement calculations by more than three years of age and service.

Based on a review of this information, the benefits, *both in kind and amount*, typically offered by the Department's contractors to separated employees are consistent with those offered across industries in the private sector. For example, the most common form of enhanced severance payment across the Department has been "lump sum" payments, typically based on one and one-half to two week's pay for each year of service, which is a practice consistent with the private sector. The Department also meets private-sector norms on many of the other benefits provided to displaced workers, including medical benefits, relocation, tuition assistance, and outplacement.

⁶ Survey summarized in *Downsizing: Law and Practice*, Ethan Lipsig (1996). The ASA survey studied the downsizing of approximately 60 entities, both public- and private sector.

Exhibit I.10 presents selected findings of recent studies performed by nationally recognized experts on work force restructuring issues and highlights related Department activities.

Issue	Surveys ⁷		
	LHH	GAO	DOE Contractors
Restructuring Strategy	**	Redeployment and retraining first, then monetary incentives to encourage resignation or retirement	Retraining, redeployment, early retirement, and voluntary separations offered in most initial restructurings
Severance Policy	Over 80 % have a severance policy	**	Most prime contractors have severance policy
Severance Form	Lump sum cash payments most common	Lump sum cash payments most common	Lump sum cash payments most common
Severance Basis	Over 80% with a severance policy, based on years of service	Based on years of service typically	Over 90% have severance based on years of service
Severance Amount	One week of pay per year of service most common	One or two weeks of pay per year of service	Over 80% one week per year of service
Severance Enhancement	Over 40% enhance severance, usually as a result of downsizing	Many offered enhancements more generous than Federal 'buyout' package	Around 45% of positions reduced since FY93 had enhanced severance or early retirement
Medical Benefits	Over 65% offer medical benefits during severance period	Some paid insurance benefits (less common than enhancements)	Provide medical benefits for those not covered elsewhere
Other Benefits	Most supply outplacement, tuition and other assistance	Many provided outplacement services, limited other benefits	Most provide outplacement, tuition, relocation.
Benefits Projection	Few expect significant change in next 3 years	Packages tend to be less generous over time	Packages tend to be less generous over time

**This feature not included (or reported) in the survey.

Exhibit I.10 Comparison of Private Sector and Department of Energy Restructuring Practices

⁷

Surveys summarized in *Downsizing: Law and Practice*, Ethan Lipsig (1996). The Lee Hecht Harrison survey studied severance policy issues associated with eligibility, calculations and other considerations based on 3,000 responses from human resources personnel; and the GAO study focused on downsizing strategies in selected public (States) and private-sector organizations.

External Benchmarking of Costs. Work force reductions inevitably involve initial costs in order to achieve long-term savings. In addition to providing the same type of separation benefits as those offered across industries in the private sector, the average separation cost for DOE contractor employees has been well below private sector standards. In an independent assessment of the Office of Worker and Community Transition performed by Booz-Allen & Hamilton, Inc., a survey of large U.S. companies was conducted to gather information on the cost of private sector work force restructuring.⁸ Voluntary separation costs for eight companies ranged from \$40,000 to \$70,000, with an average program costing more than \$60,000 per employee. The average separation cost for DOE contractor employees was considerably less.

The FY 1998 average separation cost for DOE contractor employees of \$15,700 compares favorably with the average separation cost of \$21,143 for DOD work force restructuring, as estimated by the GAO. In addition, the Department's overall goal of approximately \$25,000 per separation is consistent with the Federal buy-out packages approved by Congress.

Separation Costs - Fiscal Years 1993 Through 1997. The total cost of the work force restructuring plans from FY 1993 to FY 1997 (\$787 million), averaged over the 43,000 affected workers, was \$18,000 per employee.⁹ For further information see the Department's *Report on Work Force Restructuring Plans During FY 1993 and 1994*, issued in February 1996; *U.S. Department of Energy Annual Report on Contractor Work Force Restructuring Fiscal Years 1995 and 1996*, issued in January 1997; and the *U.S. Department of Energy Annual Report on Contractor Work Force Restructuring Fiscal Year 1997*, issued in March 1998.

Cost Comparisons. The cost-effectiveness of the Department's work force restructuring plans has improved since FY 1993. The average cost per worker has declined since FY 1993/1994, when the overall average separation cost was about \$20,600 (Exhibit I.11). In FY 1995, the average separation cost dropped to \$16,700 per worker and to about \$13,900 in FY 1996. The average cost increased in FY 1997 to \$16,800 per separation. In FY 1998 the average fully-burdened separation cost decreased to \$15,700. These figures represent an average fully-burdened cost of all separations, including attrition and workers who were not eligible for enhanced benefits.

⁸ *Study of the Effects of the Department of Energy's Work Force Restructuring and Community Transition Plans and Programs*, September 30, 1998, An Independent Assessment Performed by Booz-Allen & Hamilton, Inc.

⁹ Total separations and cost include 473 early retirement separations totaling \$25 million for an average cost of \$53,900. These separations occurred between the FY 1993/1994 annual report and the FY 1995/1996 annual report and were never counted in the total separations or total cost.

Type of Separation	FY 93/94	FY 95	FY 96	FY 97	FY 98
Early Retirement	\$42,200	\$46,500	\$39,600	\$47,100	\$49,300
Non-Retirement Voluntary Separation	\$18,200	\$19,900	\$23,800	\$27,000	\$23,100
Involuntary Separation	\$10,100	\$15,900	\$10,800	\$11,500	\$14,700
All Separations	\$20,600	\$16,700	\$13,900	\$16,800	\$14,800

Exhibit I.11 Average Cost of Work Force Restructuring

Early retirement costs have fluctuated from FY 1993/1994 through FY 1998. Per capita early retirement costs averaged over \$42,200 in FY 1993/1994, followed by \$46,500 for FY 1995 and \$39,600 for FY 1996. In FY 1997 these costs increased to \$47,100, which, in large part, was the result of the Pinellas Plant incurring higher early retirement costs relating to plant closure provisions agreed to in 1957. In FY 1998 early retirement costs increased again to \$49,300. This was due to one non-defense site that had six early retirements with significantly higher than average incentive costs. Average retirement costs for the remaining 42 early retirements was \$41,900.

The average costs of nonretirement voluntary separations have increased over the same period from \$18,200 in FY 1993/1994, to \$19,900 in FY 1995, \$23,800 in FY 1996, \$27,000 in FY 1997, and decreased in FY 1998 to \$23,100. The severance costs of involuntary separations have not followed a consistent pattern. In FY 1993/1994, the average severance cost of involuntary separations was \$10,100, \$15,900 in FY 1995, \$10,800 in FY 1996, and \$11,500 in FY 1997. In FY 1998 the average severance cost of involuntary separations was \$14,700. These fluctuations reflect differences in the compensation levels and seniority of involuntarily separated workers. The average severance cost does not include ancillary benefits or unemployment insurance received by those who were involuntarily separated.

Cost of Other Benefits. In addition to voluntary incentive payments and severance costs, separated workers may be eligible for other benefits including displaced worker medical benefits, relocation assistance, outplacement assistance, and education assistance. These benefits are typically available for multiple years, so the cost incurred in the year of separation for other benefits is only part of the total cost. The remaining costs are incurred in future years. The Office began tracking the cost of other benefits in FY 1993. Cost comparisons among the ancillary benefits yield mixed results (Exhibit I.12).

Type of Other Benefit	FY 93/94	FY 95	FY 96	FY 97	FY98
Medical Benefits	\$4,800	\$1,800	\$2,000	\$2,400	\$3,000
Relocation	\$1,600	\$2,700	\$2,300	\$2,300	\$1,700
Outplacement	not calculated	\$400	\$1,000	\$700	\$600
Education Assistance	\$2,200	\$2,200	\$1,900	\$2,300	\$1,700

Exhibit I.12 Average Cost of Other Benefits Per Recipient

Historical Average Cost of Other Benefits. With six years of experience to draw from, the average cost per separation for other benefits can be estimated. The historical average cost of other benefits per eligible separation was calculated by determining the total cost incurred for other benefits from FY 1993 through FY 1998, divided by the total number of eligible separations. Eligible separations are nonretirement voluntary separations (excluding attrition) and involuntary separations with enhanced benefits.

The per separation historical average cost of other benefits is as follows: displaced worker medical benefits is \$1,548; relocation assistance is \$46; outplacement assistance is \$937; and education assistance is \$948. The total per capita historical average cost of other benefits is \$3,479. Some separated workers may incur more than \$3,479, some may incur less, and some may not incur any cost for other benefits. However, on average, workers who are eligible for other benefits will incur approximately \$3,479 in cost of other benefits. To estimate the fully-burdened cost of nonretirement voluntary or involuntary separations, the per capita historical average cost of other benefits is added to the average nonretirement voluntary separation cost and the average involuntary separation cost. The average incentive separation cost for a nonretirement voluntary separation in FY 1998 was \$23,100, the fully-burdened cost of eligible nonretirement voluntary separations was \$26,600 with other benefits included. The average severance cost for an involuntary separation in FY 1998 was \$14,700, the fully-burdened cost of eligible involuntary separations was \$18,200 with other benefits.

Not all separated workers are eligible for other benefits (e.g. attrition). To estimate the fully-burdened cost for all separations, the per capita historical average cost of other benefits is prorated based on the ratio of separated workers who are eligible for benefits to total separations. In FY 1998 the average fully-burdened cost for all separations is \$15,700.

I.4 Program Assessment

Section 3153 of the National Defense Authorization Act for FY 1998 required an independent analysis of the Office of Worker and Community Transition. As a result, in September 1998 Booz-Allen & Hamilton, Inc. issued their report entitled *Study of the Effects of the Department of Energy's Work Force Restructuring and Community Transition Plans and Programs*. The overall conclusion is as follows:

"The Section 3161 Program, as administered by the OWCT, has had a positive impact on mitigating the social and economic impacts of the DOE transition by helping to develop and create more than 22,000 jobs, providing a foundation for community economic development, and providing leadership for site closure."

Various aspects of the worker and community transition program were evaluated, and results are summarized below:

Comparison of Benefits. The Office of Worker and Community Transition determined that work force restructuring costs could include payments for early retirement, voluntary separation incentives, standard severance payments for involuntary separations, as well as, displaced worker medical benefits, relocation assistance, outplacement assistance, and educational assistance. The Office established an estimated average separation cost per worker of \$25,000, based on voluntary programs by the Federal Civil Service. To evaluate the effectiveness and fairness of DOE's work force restructuring program, the study compared the type and cost of benefits provided by DOE with benefits provided by DOD contractors and private industry going through similar restructuring. The results of the evaluation support the external benchmarking conducted by the Office and reflected in this **External Benchmarking** section report. Not only do DOD contractors and private industry offer the same type of benefits as DOE contractors, DOE contractors provide these benefits at a lower average cost per individual. The study concluded that the average separation cost incurred by DOE from FY 1993 to FY 1997 of \$18,393 per person compares favorably with work force restructuring costs, paid by DOD of \$21,143 and is much less than the private sector costs, which ranged from \$40,000 to \$70,000 with an average cost of \$60,000 per employee.

Jobs Created. The Department's community transition program is designed to minimize the social and economic impacts of work force restructuring at defense-related facilities by providing local impact assistance to affected communities. The primary goal of the community transition program is the development of jobs. The external assessment included a review and evaluation of the community transition program and estimated that the jobs created by the community transition program from FY 1993 through FY 1997 totaled 11,503. These jobs were created in communities where the total defense nuclear production work force fell by over 42,000 positions. The Department has not developed estimates for jobs resulting from worker transition programs, however in conducting their program assessment, Booz-Allen provided such an estimate. It was

estimated that 10,845 additional jobs were retained or created by the worker transition program's support of workers' efforts to obtain new jobs.

The study also looked at the cost-effectiveness of DOE's efforts to create new jobs as compared to efforts of other Federal agencies. From FY 1993 through FY 1997, DOE averaged \$10,500 per job created, which compares favorably with the cost experienced by similar Economic Development Administration (EDA) and DOD defense restructuring projects of \$12,999 to \$26,000. The study concluded that job creation was "undoubtedly a major factor in mitigating worker and economic disruptions in the community."

Retention of Skills. While companies are experiencing significant downsizing, they are faced with the significant challenge of retaining a skilled and productive workforce. The study assessed the work force restructuring activities for their impact in maintaining the critical skills necessary to complete the Department's ongoing mission. The study concluded that the voluntary separation programs resulted in the "amicable separation" of over 30,000 contractor employees; by providing retraining (in lieu of future termination benefits) to key workers who make a commitment to remain at the site to prepare them for site closure and transition; and by applying program benefits fairly and consistently to minimize work place violence and legal challenges.

Criteria Used to Provide Assistance. The Office of Worker and Community Transition has issued and updated guidance for the work force restructuring program and the community transition program. These documents were reviewed and evaluated in the external assessment. The study concluded that the guidance issued by the Office was responsive to section 3161 requirements, and "that updates were appropriately handled to clarify issues and provide guidance in response to shifting policies."

Government Accounting Office Assessment. In addition to the FY 1998 independent assessment of the Office, the GAO conducted an external assessment in January 1997. Based on the assessment, GAO stated that work force restructuring has been conducted consistent with objectives of section 3161. While the Department has prepared work force restructuring plans to meet unique circumstances at each defense nuclear site, approved incentive programs were generally consistent across the complex, and did not exceed the average cost of separations of \$25,000 per person as stipulated in the initial guidance issued by the Office.

The GAO report concluded that Departmental oversight of contractor work force restructuring improved following the creation of the Office of Worker and Community Transition, stating:

"The limited data available for the early years of restructuring showed problems in retaining workers with critically needed skills. . . . Since these early efforts, [the Department of] Energy has taken steps to improve its ability to retain critical skills. The agency acknowledged in its report on the restructuring efforts in fiscal years 1993 and 1994 that it was essential for facilities to do more effective work force planning to identify the critical

skills necessary to carry out the new mission. After [the Department of] Energy revised its guidance to emphasize work force planning, the facilities targeted voluntary separations to retain critical skills, and established controls to restrict the rehiring of employees taking voluntary separations."

I.5 Mitigating Restructuring Impacts

The Department employs a number of measures to mitigate the impacts of work force restructuring, especially the impacts of involuntary separation. Several measures have been used successfully to avoid the need for separations. These include: (1) placing at-risk workers in other positions, either directly or by training them for other jobs that may require new skills; (2) transferring workers to other sites with available positions created by changing missions or attrition; (3) providing hiring preferences for involuntarily separated workers. Additionally, sites can offer displaced workers medical benefits, relocation assistance, a variety of outplacement services, and educational assistance.

Placement. In FY 1998, 913 workers were internally placed without retraining, and 17 workers were placed with retraining, with an average cost of \$11,800. An additional 79 workers were transferred to other sites.

Medical Benefits. In 1992, Secretary of Energy James Watkins directed that all prime contractor employees separated from Department of Energy sites and not otherwise eligible for another medical program would be eligible for displaced worker medical benefits. Under this program, employees continue to participate in their former employer's medical program, but at a cost to the participant that increases over time. During the first year, the participant contributes the same amount as when he or she was employed by the company. In the second year, the employee pays one-half the applicable Consolidated Omnibus Budget Reconciliation Act (COBRA) rate. In the third and subsequent years, the employee pays the full COBRA rate.

About 1,700 employees used this coverage, at a total annual cost of about \$5.3 million, an average of \$3,000 per worker in FY 1998. Recipients of displaced worker medical benefits may have separated in prior years.

Relocation Assistance. The Department offered relocation assistance to separated prime contractor employees to help them relocate to jobs at other Department of Energy sites where such costs are not normally reimbursed. In FY 1998, 23 employees took this benefit, costing \$39,000 or nearly \$1,700 per recipient.

Outplacement Services. All Department facilities included in this report have access to outplacement services to assist separated employees in finding new employment either within or outside the Department. Some sites use consultants or subcontractors to provide such services, while others use in-house contractor staff. Some centers are staffed with job counselors, state employment services personnel, and employee assistance counselors to help separated employees locate possible new employment, prepare resumes, and accommodate personal and family concerns resulting from their separations. Services often include automated job listings, skills assessments, workshops, resource libraries, clerical help, job fairs, and resume distribution.

About 3,500 employees used outplacement services in FY 1998 at a total cost of \$1.2 million, averaging about \$600 per employee. Recipients of educational assistance benefits may have separated in prior years.

Educational Assistance. Employees, whether voluntarily or involuntarily separated, were often eligible to receive financial assistance of up to \$10,000 per employee over a two-year period. Some sites capped the total value of benefit packages, and employees receiving educational benefits received correspondingly smaller benefits in other areas. Approximately 1,700 employees took advantage of educational assistance at a cost of \$2.8 million or about \$1,700 per employee. Recipients of educational assistance benefits may have separated in prior years.

Preference in Hiring. Consistent with section 3161, all defense nuclear facility employees involuntarily separated under work force restructuring (and who meet certain qualifications for service at Department sites) are eligible for preference in hiring elsewhere in the complex. At the time the legislation was enacted, there was reason to assume that positions would be available for employment in the Department's Environmental Restoration and Waste Management program. However, because of budget reductions, the projected growth in the program has not materialized. Consequently, the use of preference-in-hiring for involuntarily separated defense nuclear employees to obtain employment at other facilities has been limited. Over 130 preference-eligible employees have been hired at Department facilities in FY 1998. To facilitate reemployment in other programs, the Department developed the Job Opportunity Bulletin Board System (JOBBS), an electronic system to announce vacancies and to allow employees to post resumes for review by other contractors and programs.

Community College Network (C²NET). There are several requirements within section 3161 concerning the education and training of Department contractor employees potentially impacted by work force restructuring. Section 3161 requires that changes in the work force at defense nuclear facilities be accomplished, when possible, through the use of retraining and that employees shall, to the extent practicable, be retrained for work in environmental restoration and waste management activities. In developing a work force restructuring plan, the Department is required to consult with local institutions of higher education. In fulfilling these requirements, the Office of Worker and Community Transition has enlisted the help of the Community College Network (C²NET).

In 1996, the C²NET program began to stimulate site-based interactions among the colleges and other work force restructuring stakeholders by conducting site visits at Portsmouth, Ohio and Idaho Falls, Idaho. More formal site visits began in FY 1997, with visits to Fernald, Savannah River, Kansas City, Hanford, and Rocky Flats. The site visits were completed in FY 1998 with visits to the Sandia, Mound, Idaho, and Oak Ridge.

I.6 Community Transition Overview

The Department's community transition program is designed to minimize the social and economic impacts of work force restructuring on communities hosting Department facilities. The program encourages the affected communities to chart their own economic future through the creation of Community Reuse Organizations (CROs), similar to the Department of Defense's Local Reuse Authorities created to assist communities affected by military base closures.

The community transition program was initiated in 1993, with most job and business development activities starting in 1994 or later. Initial program guidance for the community transition program was developed in the spring and summer of 1993, shortly after the formation of the Department's Task Force on Worker and Community Transition. In the intervening period, the program has evolved through an extensive process of stakeholder and public involvement. The *Policy and Planning Guidance for Community Transition Activities* was published in the *Federal Register* on February 7, 1997. The guidance clarifies roles and responsibilities among program participants resulting in increased accountability of Headquarters, field organizations, and CROs. The revised guidance also establishes evaluation criteria for funding decisions and program-specific performance measures.

Community transition activities in FY 1998 and 1999 focus on moving affected communities toward independence and away from reliance on funding by the Department of Energy. The Office is also encouraging the communities to use other public and private sector programs to sustain local economic development programs.

Current Funding Activities. Since 1993, a total of over \$228 million has been committed complex-wide to community transition activities, with almost \$152 million actually being spent as of September 30, 1998. To date, 12 communities have received community transition assistance.

Job Creation. From FY 1993 through September 30, 1998, the community transition program has helped communities create or retain 16,000 jobs, at an average cost of just under \$9,500 per position. Over 1,000 businesses have been created or expanded as a result of community assistance grants. By the end of FY 2001, community assistance funding provided by the Department is expected to create or retain a total of over 33,000 jobs.

Exhibit I.13 summarizes community transition funding and job creation statistics.

Site	Total DOE Funds Committed	Funds Spent	Jobs Created or Retained (Reported)	Cost Per Job Created	Jobs Created or Retained By 2001 (Est.)
Fernald	\$411,921	\$124,886	0	\$0	300
Idaho	\$20,325,000	\$12,052,352	1,808	\$6,666	3,099
Los Alamos	\$10,665,160	\$3,181,783	331	\$9,613	1,728
Mound	\$14,700,000	\$8,043,381	283	\$28,422	833
Nevada	\$12,520,000	\$7,825,324	1,666	\$4,697	2,698
Oak Ridge	\$48,752,000	\$36,483,944	3,183	\$11,462	5,580
Paducah	\$400,000	\$21,769	0	\$0	0
Pinellas	\$17,754,700	\$13,754,200	1,838	\$7,483	2,331
Portsmouth	\$5,000,000	\$939,026	227	\$4,137	804
Richland	\$18,689,382	\$13,192,761	1,446	\$9,124	3,464
Rocky Flats	\$31,735,624	\$30,610,783	1,789	\$17,111	3,320
Savannah River	\$47,622,625	\$25,854,566	3,451	\$6,742	8,981
Totals	\$228,164,491	\$151,959,889	16,022	\$9,484	33,138

Exhibit I.13 Community Transition Funding and Job Creation

Job Creation Benchmark. The Department's community transition program compares to the base closure activities of the Department of Defense. Both Departments face the challenge of stimulating local growth to replace jobs lost as the result of a site either closing or downsizing in a community. The General Accounting Office's 1996 study of 60 Department of Defense base closures in 1988, 1991, and 1993 shows that over \$30,000 Federal dollars have been spent for each job created.¹⁰ The Department's experience of creating one job for just over \$9,400 per job compares favorably with other Federal and State agencies.

A performance evaluation conducted by Rutgers University for the Department of Commerce's Economic Development Administration (EDA) defense adjustment program reported a cost of \$12,000 per job created for defense construction projects and \$19,400 per job created for

¹⁰ *Military Bases: Update of the Status of Bases Closed in 1988, 1991, and 1993*, U.S. General Accounting Office, August 1996.

technical assistance projects.¹¹ In addition, EDA has indicated that a Small Business Administration cost of \$35,000 per job created is an appropriate benchmark for revolving loan funds programs, which are often used by communities affected by the Department's restructuring.

The *Policy and Planning Guidance for Community Transition Activities* establishes an evaluation criterion for community proposals to create at least one job for each \$10,000 to \$25,000 in Federal funding received.

Community Transition Initiatives. Economic development is a long-term process that requires flexible approaches and multiple strategies to achieve success. To improve the success of the program, the Office has undertaken several initiatives that will provide ideas and assistance to the communities.

- ***Interagency agreements.*** The Office has an interagency agreement with the U.S. Department of Commerce's EDA for third party review and approval of all community transition proposals submitted to the Department. EDA has over 30 years of economic development experience working with all levels of government and the private sector. Their review of community transition plans has improved the quality and consistency of the proposals and will increase the probability of successful outcomes.
- ***Program Assessments.*** The Office conducts program assessments to ensure Department field organizations meet the responsibilities of overall program direction and accountability for using funds for local economic development. Program assessments identify areas for improvement, validate program execution, document successes that can be shared with other locations, and improve communication and understanding among program participants.
- ***Leasing Real Property Under the Hall Amendment.*** The Office led efforts to jointly develop and issue a policy statement with the Environmental Protection Agency (EPA) that establishes procedures for notification and consultation with EPA prior to leasing real property under section 646 of the Department of Energy Organization Act (42 U.S.C. 7256) as amended by section 3154 of the National Defense Authorization Act for FY 1994. This cooperative initiative will enable the Department to achieve its

¹¹ *Economic Development Administration, U.S. Department of Commerce: Defense Adjustment Program Performance Evaluation Final Report*, Rutgers University, et al., November 1997. A research team led by Rutgers University evaluated 187 defense adjustment program grants financed by the Department of Commerce's Economic Development Administration. The reviewers measured jobs created, jobs retained, and the amount of public sector funds leveraged.

reindustrialization goals and accomplish its environmental restoration mission while protecting public health and the environment. The joint policy was signed on June 23, 1998.

- ***Department Guidance on Property Transfer.*** The Office of Worker and Community Transition and the Office of Field Management led efforts to provide Departmental guidance on the use of property transfer authorities. The guidance specifically underscores the responsibility of field organizations for justifying decisions to transfer property using section 161 (g) of the Atomic Energy Act, the Department of Energy Organization Act (Hall Amendment), and the Federal Property and Administrative Services Act of 1949, as amended. The guidance was signed on August 3, 1998.

I.7 Lessons Learned

The FY 1998 work force restructuring experience illustrates important lessons learned needed to improve the implementation of work force restructuring.

- ***Contract Changes.*** Identifying and addressing work force issues associated with contract changes early can facilitate successful implementation. At Oak Ridge, considerable attention has been devoted to work force transitioning issues related to the new managing and integrating contract that is scheduled to take effect on April 1, 1998. The request for proposal included a number of specific provisions related to transitioning to work predominately carried out by subcontractors, assuring continuity in pay and benefits to avoid multimillion dollar immediate severance costs, and provisions to encourage maintenance of positive labor-management relations. On the other hand, a number of work force transition issues at Hanford resulting from the creation of "enterprise companies" were not identified until workers were transitioned, complicating full consideration of appropriate approaches.
- ***Funding Mechanisms.*** Changes in funding allocation directed by the Congress has changed the way sites develop work force restructuring strategies. In the past, this spending has relied on funding from line programs in the Department. The Office of Worker and Community Transition has worked with the Department's Chief Financial Officer to provide guidance on how sites should comply with section 304 of the FY 1998 Energy and Water Appropriations Act. The Worker and Community Transition Account is now the only source of funds for benefits that are provided pursuant to a work force restructuring plan required by section 3161 at defense nuclear sites beyond the benefits provided by the contract, company policy, or collective bargaining agreement. This approach provides improved visibility for the Congress in how the Department applies enhanced benefits and requires clear priority decisions to allocate limited available resources for this purpose.

- **Site-Specific Solutions.** It is evident that, in many cases, voluntary separation programs can be tailored to individual site situations in order to mitigate resistance and adverse impacts in a cost-effective manner. Rocky Flats has a program in place to facilitate worker acceptance of outsourcing actions. This program offers enhanced benefits to workers who want to leave contractor employment, with the restriction that they will not seek work at Rocky Flats or other Department of Energy sites. At Savannah River and Oak Ridge, workers who were willing to separate receive regular severance payments if their separation eliminates the need to involuntarily separate another worker. This is less expensive than an involuntary separation because of other benefits offered in an involuntary separation. It also eliminates the need to separate workers who do not want to leave.
- **Preference in Hiring.** The low number of preference-eligible employees hired at Department facilities in relation to total hires suggests that sites may want to consider improvements in career development strategies for preference-eligible employees. Improved training strategies may increase the level of internal transfers or rehires of preference-eligible workers to meet critical skill requirements. The Office will also emphasize the need for sites to advertise their job openings on the Job Opportunities Bulletin Board (JOBBS).
- **Employee Performance Evaluations.** Work force restructuring activities at some sites have highlighted the importance of having valid employee performance measurement systems established prior to work force restructuring. Well-documented and consistent performance evaluations are critical to managing involuntary separations based upon performance factors.
- **Integration with Community Transition.** Integration between work force restructuring and community transition activities is improving. The C²NET has stimulated site-based interactions among the colleges, work force restructuring stakeholders and community transition stakeholders. Site visits integrate the functions of work force planning, work force restructuring, labor relations, economic development, and education and retraining.

I. 8 Emerging Issues

Several emerging issues are evident as a result of FY 1998 activity.

- ***Future of Work Force Restructuring.*** Considerable work force restructuring will continue to occur across the Department of Energy complex over the next several years. It is estimated that the Office of Management and Budget spending targets under the balanced budget agreement will result in 3,000 to 5,000 contractor work force reductions per year through 2001. Skills mix changes required by Environmental Management's accelerated clean-up program and improved efficiency in operations (including changes in contracting mechanisms) may require retraining and/or separation of up to 5,000 additional workers over the next five years. Consolidation or closure of the gaseous diffusion plants in Ohio and Kentucky may also result in restructuring requirements the costs of which will be borne by the Department as a result of the Uranium Enrichment Privatization Act.
- ***Work Force Management.*** Work force management continues to be a critical issue at many of the sites. As some sites move toward early closure and work force planning systems are further developed, many contractors are developing employee transition plans that promote retention of critical skills. These transition plans may include career training assistance prior to separation, in exchange for an agreement to voluntarily separate, without severance, at an agreed upon time when their skills are no longer needed for Departmental missions. Offering benefits to employees in providing a seamless transition to new employment, could save the taxpayers millions of dollars by avoiding separation costs. Attrition is also a significant challenge to work force management at some sites. When an employee voluntarily leaves a critical position through attrition, the pool of critically-skilled internal replacements continues to shrink. Sites are increasingly called upon to hire outside the Department's labor pool to meet critical skill requirements.
- ***Outsourcing.*** Addressing issues related to changes in contracting methods is becoming increasingly important to assure a smooth and productive transition. Outsourcing raises issues with respect to how impacted workers will be treated, including the question of whether wages and benefits remain comparable, how severance and other separation benefits will be dealt with, and the extent that the incumbent work force is provided first opportunity to fill positions with new contractors. More wide-scale privatization activities raise similar issues. The Office of Worker and Community Transition is working with other Departmental programs to provide general principles for work force issues in undertaking privatization actions; develop a checklist of issues to consider; and share lessons learned across the complex.

I.9 Future Mission of the Office of Worker and Community Transition

The Worker and Community Transition program mission is evolving as the Department confronts new challenges in managing its contractor work force and dealing with facilities that are excess to the future needs of the Department. While work force reductions associated with budget changes will continue, their scope is likely to decline compared to recent years.

The Office is working with program and field offices, contractors, workers and community leaders to develop work force management and community assistance strategies that will facilitate the early closure of Fernald, Rocky Flats, and Mound. Addressing worker transition issues involved with new ways of doing business, including the use of privatization and outsourcing, is a growing and ongoing program responsibility. Reindustrialization efforts that transition excess DOE facilities for use in commercial enterprises, at sites such as Oak Ridge and Mound, will be an area of increasing focus for the program in the coming years.